IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF NORTH CAROLINA
WESTERN DIVISION

VARIETY STORES, INC. Plaintiff	. CASE NO. 5:14-CV-217-BO . ELIZABETH CITY, NC . JUNE 14, 2016
V.	.
WAL-MART STORES, INC., Defendant	.

. . . . . .

TRANSCRIPT OF STATUS HEARING
BEFORE THE HONORABLE TERRENCE W. BOYLE
JUDGE, UNITED STATES DISTRICT COURT

APPEARANCES:

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Proceedings recorded by stenomask, transcript produced from dictation.

THE COURT: Good afternoon. I'll hear from the plaintiff first about how to proceed now. I'm advised by your briefings the dispute is over whether to have an equitable recovery and/or a legal recovery, and whether those are appropriate in combination or whether there's an election and one preempts the other. We're having this hearing in order to set the stage for the next part of the proceedings, at least that's the way I see it.

MR. ADAMS: I understand, Your Honor. Good afternoon. My name is Thad Adams representing Variety Wholesalers. With me is my co-counsel, Mr. Scott Shaw.

Your Honor, we believe the most appropriate way to proceed would be to go directly to a non-jury hearing on the equitable remedy of disgorgement of profits for the reasons that we have set out in our memo.

THE COURT: Is that a case law developed remedy?

MR. ADAMS: It is.

THE COURT: It's not a statutory remedy?

MR. ADAMS: It's certainly statutory in the sense that the statute itself says that the Court decides the remedy, and it may or may not use a jury. But the remedy is an equitable remedy, and I can refer Your Honor to a very recent opinion and explain the case by Judge Flanagan that I think spells that out very clearly. Let me go back for just a moment. The Summary Judgment Order that Your Honor

entered last December 7th resulted from the fact that not only did we file a Motion for Summary Judgment, but Wal-Mart, for reasons satisfactory to itself, chose not to file a motion under 56(d) to take additional discovery or to otherwise delay the hearing based on its need for some further activity. Instead they turned around and filed their own Motion for Summary Judgment. So when we had the hearing last fall, Your Honor, may remember that it was not only Variety arguing for its Motion for Summary Judgment, but also Wal-Mart arguing for its Motion for Summary Judgment. Now why is that important? In our view it makes it crystal clear that both parties at the time, with relatively minor exceptions, thought that they had the evidence that they needed to prove their side of the case. And so Wal-Mart's arguments were, in effect, mirror images of our argument. In other words we argued there was likelihood of confusion. They had a mirror argument that there wasn't. And they had facts that they thought supported that contention and right on down the line. Each of the nine categories or points that Your Honor addressed in the Summary Judgment Order were addressed by both parties, and of course Your Honor came down on Variety's side and entered Summary Judgment in our favor.

I think what that means is that there really isn't very much left in the way of discovery that would need to

be had to have a hearing on disgorgement of profits. Now we have set out in our memo what we think is the accurate and complete law on this particular issue. The statute is very clear that this is something the Judge does, especially after Summary Judgment has been entered. Now there could be cases, of course, where there are factual disputes regarding these various issues, and everything is done together. But that's not what we have here. We already have a finding by Your Honor that we were entitled to Summary Judgment. When it gets to the remedy issue then you start talking about the factors which are set out in the Synergistic's opinion. And Synergistic is frequently cited, Your Honor, by courts all over the Fourth Circuit. It relies on the Banjo's case from the Third Circuit. And those elements that the Court considers in determining a remedy in most cases clearly correspond to the similar elements that the Court has already decided in ruling on the Motion for Summary Judgment. It just happens to be the case here that that's what the Court did. So there really isn't a lot of additional factual material that's necessary to arrive at disgorgement. The Court has already made findings regarding likelihood of confusion. The Court has already made findings regarding intent. In fact, I believe it is fair to say that Your Honor felt that the willfulness that Variety -- I'm sorry -- that Wal-Mart displayed in

refusing to follow their attorney's advice on two separate occasions and going ahead and using the mark is about the clearest example of willful infringement and raising the possibility of likelihood of confusion that you could possibly have. So we just don't see in this particular case, since this is a hearing after a Motion for Summary Judgment has been granted, that we really need to have a hearing on profits -- I'm sorry, on damages in the form, for example, of a reasonable royalty first. There's another reason for that, and that is that there is a series of festering disputes before Judge Swank, some of which have been going on for a year and a half now, virtually all of which relate to the issue of what a reasonable royalty might be. And I have no idea how much longer those issues are going to be in front of Judge Swank. So far Wal-Mart has exercised a grotesque degree of contempt for everything, virtually everything that Judge Swank has done. So we now have a series of letters that are before Judge Swank trying to resolve issues that arose a year ago January. And Wal-Mart has simply told Judge Swank, no, we're not going to do that. Just by way of one example, way back at the beginning of this case we filed some document requests and a Rule 30(b) -- and a 30(b)6 that required them to produce correspondence relating to other license agreements that they have. Wal-Mart refused to do

that, so we filed a Motion to Compel. We heard the Motion to Compel, and Judge Swank denied our motion but told Wal-Mart I do think it's reasonable for you to allow Variety to have a deposition. And so there's going to be a deposition of a witness regarding this correspondence and then we can decide whether or not, based on the deposition testimony of this witness, whether or not the correspondence should be produced.

What did Wal-Mart do, they just ignored it. So when I wrote who was then Wal-Mart's counsel, no longer Wal-Mart's counsel, when are you going to comply with this Order, she just wrote back and said, we're not going to; we're not going to provide the witness. In fact, we'll file a Motion for a Protective order if we have to. So we came back in January of this year regarding the same issue that we had dealt with in May of 2015. And the transcript of Judge Swank made it very clear. It says, I'm very troubled, in fact, that we're here in January and you still haven't complied -- I'm paraphrasing of course -- still haven't complied with the Order I entered requiring you to produce a witness to answer questions regarding this correspondence.

So we've been exchanging letters, and as of the 23rd of last month, we had submitted our positions regarding whether or not there ought to be a hearing, a telephone

hearing or a hearing at all. The point of this is, Your Honor, that we don't think that that ought to slow up the process. Most of that relates to the question of whether or not there's a reasonable royalty and, if so, what it would be. I think we need to simply let that take its own course and move ahead with the hearing on disgorgement of profits. I just don't think -- I don't want to characterize Wal-Mart's conduct beyond what I've already said, but I just don't think Wal-Mart is interested in moving this case along. I think it's going to require a judicial nudge to get it done. For that reason, the easiest way I think and the most straightforward way to resolve this case is to have a disgorgement of profits hearing before the Court. And while I'm not, at this point, waiving any claims, I think I can represent to the Court that I think it is very likely that after a hearing and a result in the disgorgement of profits side of the case, I think Variety will very likely simply waive at that point its claim for a reasonable royalty. So I think that's another reason why I don't think it makes sense to bog down this part of the case to await whatever happens in this other part that's still pending before Judge Swank.

THE COURT: A few questions if you'll listen and bear with me. The disgorgement of profits is the profit, not the gross sale, but whatever evidence there is and whatever

experts there are as to what profit was realized on the tainted sales, sales that were covered by the trademark?

MR. ADAMS: That's right, Your Honor, and under the statute it works very similarly to the way it does in the Copyright Act. In other words, the only real thing that Variety has to do in the first instance is offer evidence of what Wal-Mart's gross revenue was, in other words, all the revenue they obtained from the sale of the infringing grill.

THE COURT: And that was forecast I think earlier as being over *** ******* *** ***** * *******?

MR. ADAMS: Yes.

THE COURT: It's somewhere in the broad range there, over the period of time?

MR. ADAMS: Right. And that's really statutorily all Variety has to do in this instance.

THE COURT: Well, how does the trier of fact come up with the net amount?

MR. ADAMS: Well, then the statute goes on to say that it's the duty of the accused infringer, in this case, the determined infringer to prove by a preponderance of the evidence what deductions, if any, are proper.

THE COURT: Oh, okay.

MR. ADAMS: So it would be Wal-Mart's responsibility, and the burden would be on them to come in, obviously with expert testimony, and they would disclose what revenue they

had received and the cost of goods and would make that deduction. You take the cost of goods and the gross revenue together, you end up with what's called gross profit. It's simply a simple mathematical formula. Then the experts go to work, and it's usually a matter of dueling experts where one expert will say, well, certain things also should be deducted to arrive at a true profit.

THE COURT: So it's a net profit that is the measure of damages?

MR. ADAMS: No, it's just a profit. And there's a discussion -- there's usually a debate about what deductions have to be made from the gross revenue to allow the profit figure. The statute doesn't speak in terms of gross profit, net profit or anything else. It just says the profits. And so the usual way at a trial --

THE COURT: So profits is synonymous with proceeds; is that what you're saying?

MR. ADAMS: Well, yes, I mean, if you --

THE COURT: I mean, it's the gross amount that's received from consumers?

MR. ADAMS: Minus the cost of goods.

THE COURT: Okay.

MR. ADAMS: So, for example --

THE COURT: So if the cost of goods is 50 percent and the gross proceeds from consumers is 100 percent, the other 50

percent would be the profits?

MR. ADAMS: Exactly. And, as I say, there is usually some discussion about -- along the margins about whether or not a few additional things should or should not be deductible, to account for things like shipping or administrative overhead and so forth, but usually that's the way it proceeds.

THE COURT: So what about market area? What about the geography of where the profits are measured?

MR. ADAMS: The courts are pretty much unanimous on the fact that in the case of willful infringement where you're talking about disgorgement of profits, that geography simply doesn't enter into it.

THE COURT: So if your client -- and I don't know -- I'm just going to take this for the example -- if your client isn't marketing, say, on the West Coast, in Washington, Oregon and California, but Wal-Mart is, and they are selling this line of products and reaping revenue from that, you would still include that in the profits?

MR. ADAMS: Absolutely. In the case of willful infringement, absolutely. Furthermore, we have a federal registration which protects us throughout the United States. And given the situation something like this could diminish the ability of Variety, for example, to move into an area or if it did it could minimize its sales or

whatever. So that's -- again, that's been, I think, fully briefed.

THE COURT: So it's not geographically market presence?

MR. ADAMS: It can be in certain circumstances, but not here.

THE COURT: But you're not claiming it here -- you're claiming it isn't here?

MR. ADAMS: We're claiming it isn't. We're claiming we're entitled to all of Wal-Mart's profits throughout the United States, wherever our trademark, our federally registered trademark, protects us.

THE COURT: Stay right there. Thank you for your patience. I'm going to try to go through what's on my mind with them, and then I'll give you ample chance to talk. We'll have a thorough vetting here.

MR. PUZELLA: Thank you, Your Honor.

THE COURT: If you weren't in the equitable zone of disgorgement but were in damages as a legal matter, what would you be measuring damages as?

MR. ADAMS: We think that an appropriate way to measure damages would be a reasonable royalty. In other words, the case law generally says that, well, in a situation where you don't actually have a license agreement one reasonable way to do this is to essentially create one, in other words, generate a series of assumptions that are reasonable

under the circumstances and apply that formula to the circumstances.

THE COURT: So in the market that the defendant was competing in for these products that were covered by the mark, what would -- what would add to their price and still make them competitive? In other words, what would allow them to do it. I didn't say that right. Let's say it costs $20 to make an item, or you're going to sell it for $20, but you have to get a royalty because it has somebody else's trademark, so you add $2.00, and you make it $22.00. Does that put you out of the market because somebody is selling on at 21.99, or how do you figure that out?

MR. ADAMS: Well, in the real world that might, in fact, happen in which case you wouldn't enter into that licensing agreement because it wouldn't be economically feasible to do so. In a situation like this and there are cases -- there's the Quaker Oats case and a number of other cases, including one in Charlotte that I was involved in where the court dealt with exactly that issue. But, really, all you're doing, is you're creating sort of a fictional assumption that, well, what would have happened if Wal-Mart had done the right thing. In other words, instead of infringing the trademark what would the likely result have been if they had simply come to Variety and said, we'd like to -- we'd like a license. And of course Wal-Mart may not

have gotten a license. Variety may have said, well, we don't license our trademark. So the Courts take into account -- I mean, this is an assumption you're making. And I know in a case I was involved in, which was called Clear Blue versus Clear Blue -- it's sort of like Backyard versus Backyard -- Judge Whitney specifically ruled that there didn't have to be any prior negotiations or attempt at licensing between the two parties. But, in essence, in a situation like that there would be an attempt to arrive at a royalty. And that would be applied -- that would be applied to the gross sales. In other words, royalties are almost always applied not to the profits but to the gross revenue. And so whatever percentage the fact finder came up with, that would be the case.

THE COURT: So it's sort of a moving target. You're using different factors in each of the recovery zones. You're going to have a portion of the gross amount in damages, so it might be ten percent on gross sales or something like that. And the other would be the disgorgement profits.

MR. ADAMS: Well, another reason why I think that it makes sense to do the disgorgement first is that I think Wal-Mart might would -- Wal-Mart would have an argument that if you did disgorgement first and then you had a separate hearing on reasonable royalty, under some circumstances that might actually involve double accounting. In other words,

because the royalties would be another expense which would be applied. So another reason why I think it makes sense to do the disgorgement first, it may eliminate the possibility or need to do a trial on the royalty issue altogether. But the other reason is that, again, we're tangled up in front of Judge Swank on this whole issue of reasonable royalty. We've got license agreements that have been produced. Wal-Mart still hasn't produced the witness that Judge Swank ordered them to produce on its correspondence in January of last year.

THE COURT: Do you have to elect between the two recoveries?

MR. ADAMS: No.

THE COURT: You don't?

MR. ADAMS: There's nothing in the statute that requires that. Again, we may very well do that. I'm not going to do it here, but, again, depending on how the disgorgement hearing turned out it might not make any sense for Variety to ask for a separate trial on recovery based on a reasonable royalty, in which case we simply at that point would waive it altogether.

THE COURT: And this falls into equity for what reason? Is it well recognized in equity?

MR. ADAMS: The statute says it does. The statute refers to it specifically as an equitable remedy, but it's the

Court's decision to do this. Again, I can't, off the top of my head, recommend a better place to start but in the Exclaim opinion that Judge Flanagan authored about -- just a few months, maybe a year ago. She really goes into this quite well, and she's relying on an earlier Ninth Circuit case which was exhaustive in its discussion about how this sorts itself out. So I really don't think there's any dispute about the fact that disgorgement of profits is by definition an equitable remedy, and it's for the Court to determine, not a jury.

THE COURT: Okay.

MR. ADAMS: Especially where you're dealing with summary judgment and the basic facts in the case have already been determined as a matter of law.

THE COURT: What would be involved in -- I'm ready, willing and able, if necessary, to go forward. Do you all have a time problem with doing it in the near future?

MR. ADAMS: No. The only thing I would mention, Your Honor, is in terms of -- in terms of my personal situation we have children and grandchildren living in Germany, and we have a planned vacation trip scheduled between the middle of September and the first week in October.

THE COURT: I'm thinking of getting to it before that.

MR. ADAMS: That would be fine. As long as we're done by sometime in early September, we're ready to go.

THE COURT: Well, it wouldn't take that long.

MR. ADAMS: No. Again, I think that's the other advantage of doing this first. The procedures will be relatively truncated and straightforward. Without a jury the hearing is going to last about half as long as it would otherwise, and I think that certainly makes a lot of sense from the plaintiff's standpoint.

THE COURT: All right. Anything else?

MR. ADAMS: No, Your Honor.

THE COURT: Okay. Thank you.

MR. ADAMS: Thank you.

THE COURT: I'll hear from the defendant.

MR. PUZELLA: Good afternoon, Your Honor, Mark Puzella from Fish & Richardson on behalf of Wal-Mart. With me is my colleague David Hosp with Fish & Richardson and our local counsel, Kirsten Small from Nexsen Pruet.

THE COURT: Okay. Thank you.

MR. PUZELLA: Would you like me to begin by addressing the Court's questions?

THE COURT: Well, I think what you're faced with now -- I mean I know you want to go to the Court of Appeals, but I'm not going to certify it until it's over and then I don't have to certify it; it will be ready to go. I'm going to -- I'm thinking about having this hearing on the disgorgement of profits as an equitable remedy and doing it

as soon as I can or as soon as you can, not I can. I can do it tomorrow. So that's where we're going. I see the hierarchy as being the disgorgement equitable hearing and then based on the outcome of that decide what's left, if anything, in the case.

MR. PUZELLA: If I may respond to some of the questions that were posed to Variety, the question of whether a request for unjust enrichment damages is equitable or legal such that there should be a non-jury or jury determination is not clear cut.

THE COURT: Is not what?

MR. PUZELLA: Is not clear cut, contrary to Variety's position. There's a Supreme Court case called Dairy Queen where the Court considered a Complaint that had both breach of contract and trademark infringement claims in it. It was essentially a franchise agreement where the defendant continued to use post the expiration of the franchise agreement, so there were claims at law, and there were arguably claims in equity under the Trademark Act, as the plaintiff suggests here. The Court in that case said that no matter whether it's construed as a complaint at law or a complaint at equity, the defendant is entitled to a jury because the nature of unjust enrichment damages in a trademark case is such that it's a legal remedy. Because the nature of 15 U.S.C. 1117, which is the statute that

gives us the damages for an illegal trademark is such that it's a burden shifting, that the plaintiff's entitlement to the defendant's profits is really by way of a proxy for actual damages. That's the nature of the entitlement under the statute. So where those damages are a proxy for actual damages, you're entitled to a jury. So here in various places in the papers, and we identified it in our briefs, the plaintiff has claimed that its damages in this case are a proxy for its own losses. Where that is the case, the defendant is entitled to a jury.

So what's even more interesting about this is plaintiff is very keen about the idea that the equitable balancing that the Court can apply after the jury returns a verdict is governed by a Fourth Circuit case called Synergistic. And there's a multi-factor test that the Court can use to adjust the determination up or down. One of those factors that the Fourth Circuit gives us is the question of whether sales have been diverted from plaintiff to defendant. So one of the factors that the Court has to consider in this later equitable balancing is the question of whether sales have been diverted, the question of actual damages. That is a legal damage. That is a determination that needs to be made by a jury. So no matter the concept or the characterization of the -- or the label that the plaintiff puts on their claim for relief, the elements that

the Court has to consider in its equitable balancing are elements that have to be first determined by a jury. Because without a jury we can't determine the degree to which Variety has been actually damaged, as compared to whether Wal-Mart has been unjustly enriched.

So the case law is not at all as clear as plaintiff would suggest. And as we set forth in our papers, we think the case law comes out the other way. And another factor that is required by the Synergistic case that the Fourth Circuit gives us is the question of whether other remedies are adequate. So taking plaintiff in their position as true, we'll have a determination on royalty later. Well, how then can the Court determine whether that other remedy is adequate in its equitable balancing if there's been no determination by the jury as to whether a royalty is appropriate and in what amount. So the Synergistic case brings together the legal and the equitable claims in a way that really instructs us that the best practice is to do this all at once.

THE COURT: Is injunction a factor in the remedies?

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THE COURT: There's no injunctive relief sought?

MR. PUZELLA: There is. May I have a moment, Your Honor?

(Mr. Puzella confers with Mr. Adams.)

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THE COURT: Well, at least I'm consistent, whether I remember it or not.

MR. ADAMS: **
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THE COURT: No, injunction -- well, there may be a trial but not a jury.

MR. ADAMS: No, of course not. But, still, there would have been a hearing, and Wal-Mart, of course, would oppose an injunction. There would have been an argument about the amount of money and whatever happened Wal-Mart would appeal.

THE COURT: But the injunction is usually the paramount goal of these. I had a much litigated case that you don't have to care about, but Georgia Pacific versus Von Drehle over the --

MR. ADAMS: I'm very familiar with it, over paper towel rolls.

THE COURT: Wave your hands on the towels. And, gosh, they were more into the injunction than they were anything else.

MR. ADAMS: **********

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THE COURT: No, I was -- you know, full disclosure of a judge's mind, I was just speculating that certainly injunction is a core equitable remedy and it's a behavioral remedy, not necessarily a financial remedy, but it suggests a fact that you're deeply into equity, and other financial remedies could arise at the same time.

MR. ADAMS: **********

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THE COURT: Well, I'm sorry to interrupt you. You can resume where you were. I just wanted to clear that up.

MR. PUZELLA: So the Court's question was, might an injunction be a component of another remedy in which the Court has to consider its adequacy. **********

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THE COURT: Okay.

MR. PUZELLA: So considering whether the remedy is adequate or the adequacy of these other remedies, in the Synergistic case it says one of the things the Court ought to consider is this other demand for damages, namely a reasonable royalty. So the point is that if that determination is put off for a later time, the Court's hands will be tied on that factor, because the Court won't be able to assess the adequacy of another rememdy because it hasn't come in yet, which is why the better practice is to have all of these issues presented to a jury, which the statute allows. 15 U.S.C. 1117 allows the presentation to a jury. And, in fact, if I may approach, there is a federal pattern jury instruction on this very topic. May I approach?

(Hands up document to the Court.)

And I think this answers several of the Court's questions. So the jury instruction reads: "In addition to

actual damages, plaintiff is entitled to any profits earned by the defendant that are attributable to the infringement. However, you may not include in any award of profits any amount that you included in determining actual damages. Meaning that there ought to be a set off between actual damages here, unreasonable royalty, that plaintiff wants to put off for another day, and profits. If we put it off for another day, we can't have that set off. Expenses and then it describes how it is the defendant has to prepare expenses and prove its case. And then finally -- this is an element that plaintiff omitted from what needs to occur during the hearing -- and that is unless you find that a portion of the profit from the sale of goods using the trademark is attributable to factors other than the use of the trademark, you must find that the total profit is attributable to the infringement.

So what that means is that under the burden shifting of 15 U.S.C. 1117 on lost profits, the defendant, Wal-Mart, has the opportunity to disprove causation. So the defendant can show that the use of the mark is not tied to the sales of the product, that the consumers who went to Wal-Mart to purchase grills purchased grills from Wal-Mart, not because of the name but because of the price, because of the warranty, because of the product specifications, because of its color, whatever. So there is an opportunity

for the defendant --

THE COURT: That's a back door way of invalidating the trademark. I mean, that was part of the argument on summary judgment.

MR. PUZELLA: It's not, Your Honor, because it's often the case that you can get a finding of infringement but no entitlement to the defendant's profits.

THE COURT: But that cuts against the undisputed facts that the Court found in the Summary Judgment Order. If I recall, the Order clearly says that it was the mark that was confusing and that people didn't buy the product because of the price or because of the availability and that sort of thing.

MR. PUZELLA: What the Summary Judgment decision finds is that there is a likelihood of confusion between Variety's goods on the one hand and Wal-Mart's goods on the other. That doesn't tell us that all of the sales made by Wal-Mart are attributable to the use of the mark. It may be some portion, and there's a portion of people who perhaps --

THE COURT: But if the mark is valid and enforceable, and it's on everything, the fact that a blind man goes in and says, sell me a grill; here's $20, doesn't obviate the strength of the mark.

MR. PUZELLA: It doesn't obviate the strength of the mark, but the question of whether a mark is strong for purposes

of likelihood of confusion is not the same as whether a mark is a motivator in a purchasing decision, and that's the question that has to be addressed in the damages phase. There can be infringement, there can be grounds for an injunction, but there may not be grounds for the entirety of lost profits. The defendant is entitled to show that some portion of the sales were not attributable to the use of the mark.

For example, plaintiff in its presentation suggested on a question about geographic scope, that it is entitled to damages in those areas where it doesn't engage in sales, let's say, California. Wal-Mart sells in California. A California consumer has never been exposed to Variety's mark. They don't sell there. So there can be no occasion for the sales that Wal-Mart made in California to be unjust enrichment, because none of those sales are as a consequence of using the mark. All of those sales were for other reasons.

THE COURT: But the mark is still a protected mark. I mean, years ago -- how many years ago -- 50 years ago, Coors beer didn't sell on the East Coast because they made it all in Golden and they didn't want to discredit the quality of the product that was under certain conditions. So suppose a guy in New York City started labeling and selling Coors beer you think they wouldn't have stopped

them?

MR. PUZELLA: They may have been able to get an injunction, Your Honor. I'm not quibbling with that. I'm talking about the degree in which the plaintiff is entitled to disgorge the defendant's profits without some sort of showing that those profits are tied to the use of the mark. If it is the case that there are consumers who purchased the product for reasons other than the presence of the mark, those are not -- those are not profits that were unjustly acquired. The unjust enrichment test is not premised on mere use; it's premised on whether the mark was the motivating principle for the purchase.

So if I could turn to some of the Court's other questions, one of the issues that Variety suggested was that consideration of a royalty may present issues of double accounting. That's exactly right. If you have a royalty determination, the royalty is an expense, and that expense has to come out of a calculation of profits. So that's another reason why these two types of damages ought to be determined in a single event, because they are offset and one is related to the other. And along those lines, there are factual questions that are in the royalty determination that are also in the unjust enrichment determination. A moment ago I was discussing this concept that under unjust enrichment, as it is stated in the

pattern jury instruction, the plaintiff is only entitled to those portions of the profit that are attributable to the use of the mark.

When looking at the royalty figure issue, in figuring out what an appropriate royalty figure is, you have to determine the value of the trademark, because you are trying to invent a negotiation between the parties, and a factor in those negotiations is to what degree is my use of your mark going to aid me in making sales.

THE COURT: Right.

MR. PUZELLA: Right. So the question of determining a reasonable royalty is inextricably intertwined --

THE COURT: With the market.

MR. PUZELLA: With some --

THE COURT: With the market, what the market will tolerate.

MR. PUZELLA: It is. And it also --

THE COURT: Say this is a $20 grill, give me $20 and a license fee. Now it's a $40 grill. Well, all the $22 grills are going to be sold first.

MR. PUZELLA: That may be the case in the real world, that may be. But my point is that reasonable royalty and its determination is inextricably intertwined with trying to determine the proper amount for unjust enrichment, which plaintiff contends is equitable. Assuming that's correct, that means that there are common facts to be determined

when looking at a reasonable royalty and unjust enrichment. And where there are common facts, the case law tells us, that those two determinations should be simultaneous or at the very least the legal determination should not come after the equitable determination.

So the last point I want us to make concerns the degree to which plaintiff believes that a royalty consideration will delay matters, we have a different view of the facts. And we're happy to brief this if you would like, but the only royalty related correspondence that plaintiff contends has been subject to dispute with Judge Swank, it's completely been produced, and has been I think more than a month where Wal-Mart has indicated that its witnesses on those topics are available for deposition, and the plaintiff has not taken us up on that offer. So there are no royalty based disputes before Judge Swank. There are some disputes before Judge Swank, but they don't relate to these royalty issues, so there's really no opportunity for these royalty issues to cause the belief that it is going to delay matters and we ought to just get on with the unjust enrichment portion.

So our position, Your Honor, as set forth more fully in our briefs, is that it's the most proper course for unjust enrichment to be considered as a legal remedy. Its underlying purpose is to address legal damages. By its

nature it's inextricably intertwined with the royalty request, and there are various elements within the Synergistic factors that the Court is to consider that simply cannot be accomplished in a non-jury setting.

Unless the Court has any questions.

THE COURT: No. I thank you for your position.

MR. PUZELLA: May I comment on the timing that plaintiff suggested?

THE COURT: Sure, as I reach for my calendar.

MR. PUZELLA: I think it is agreed between the parties that there is at a minimum a need for some additional discovery. The parties submitted a joint report. Expert discovery, Your Honor. We haven't taken the deposition of plaintiff's expert witness. The parties submitted a joint report to Magistrate Swank, following your Order, in January in which the parties agreed, each party will produce for deposition anyone that it intends to testify at trial who has not been deposed previously. We have offered those people, and plaintiff has not taken the opportunity to take those depositions. There are depositions of Variety that we would like to take, that we requested that have been refused. And, second, the parties submitted to Judge Swank: Wal-Mart will issue a subpoena for the deposition of plaintiff's damages expert, Dr. Poindexter of Florida, which will be taken after (a) Wal-

Mart provides supplemental sales and cost data to plaintiff. That has been accomplished; (b), Dr. Poindexter supplements his reports. That hasn't happened yet. We're waiting on supplementation from plaintiff. And, (c), Mr. Rogers, the defendant's expert, supplements his damages report. That hasn't happened because we haven't had the supplementation. And then thereafter the parties are going to take the depositions of each side's experts, which hasn't happened because the supplementation hasn't taken place. So in the plaintiff's own brief requesting a non-jury hearing, they indicate that a discovery period to assess these issues is necessary. I believe it was 30 to 45 days. So I think that brings us given --

THE COURT: Having magistrates creates a false sense of security, because you get engaged with what they do and it really doesn't trickle up. If you were -- if there were no magistrates and all of this discovery stuff just had to land on me, we wouldn't be talking about it.

MR. PUZELLA: Understood, Your Honor, but nonetheless we presented agreed positions to the magistrate that were necessary to resolve pending motions.

THE COURT: I know, but I need to be efficient with the use of the Court's time, my time, the trial judge's time. I'm looking at August 15th as the trial date.

MR. PUZELLA: And before that -- assuming that would be the

case, Your Honor, before that time will the parties be entitled to engage in discovery that has been previously agreed?

THE COURT: I mean, it's up to you. I would tell you to just get ready for trial. If it's a non-jury trial, that's the way it'll be.

MR. PUZELLA: So --

MR. ADAMS: Your Honor, we'll work something out with Wal-Mart's counsel. They will have every opportunity to do what they need to do.

THE COURT: I'll give you a trial date now of August 15th for a non-jury trial on the equity.

MR. PUZELLA: Well, Your Honor, it's Wal-Mart's position that there is more discovery to be done, some of which is subject to a court order from the magistrate.

THE COURT: Yeah, but the magistrate doesn't order me around.

MR. PUZELLA: Understood, but the magistrate ordered the parties to engage in 30(b)6 depositions related to motions to compel.

THE COURT: I can vacate that. I just did that the other day in another case that we ended up trying, because that's the efficient use of the court's time. I mean, I'm here, I'm ready to go and I just see that as imperative. I'm not trying to do anything but be candid with you. So I'll do

an order to that effect, that we'll set the case for trial the week of August 15th. Now if something comes up that's irreconcilable, let me know, but that's where we go from here. It's not going to take that long. I mean if you marshal your evidence and put it on, I'll be the one to decide.

MR. PUZELLA: Your Honor, the rule is that the defendants are entitled to present at this non-jury trial, we have a motion pending concerning some witnesses that we disclosed pursuant to the magistrate's order who we offered for deposition by the plaintiff, and the plaintiff has moved to exclude them despite us identifying them in response to the magistrate's order. I understand the court's order and what the court intends to do, but from the parties' point of view there are pending motions on who are appropriate witnesses.

THE COURT: Yeah. Well, why don't you have a conference and come up with some solutions. Here's the problem that I see. You know, I'm the referee. I've got time. And things go fast, okay, for whatever reason; they move fast. And you've got a lot of money at stake here. ********** ******* *******. It's, you know, I don't know what, maybe a number significantly --

MR. PUZELLA: A lot.

THE COURT: A lot. A lot is a lot. And no one wants to be

in an awkward position with their client involving that, because there will be scrutiny, probably. And so without trying to be difficult, I'm telling you that I'm going to do a non-jury trial, you're going to get an outcome. You may go to the Court of Appeals with that. I see that as highly efficient in the administration of justice. Work around that and if you've got some real problems, I'm not unsympathetic. But that's where we -- and as far as -- I'm sorry that you got entangled with a magistrate. If you had a good playbook on my practice and my history, you would see that that's not a fruitful tack. I don't use them, I don't send things to them. The court clerk does, but I don't. I don't talk to them. So you get enveloped with a magistrate and you have all this busy work and all this time consumed and then you find out it was for nothing.

MR. PUZELLA: In this case, Your Honor, the result of that would be the parties' agreements in connection with that. And it changes expectations.

THE COURT: If you had a good playbook on what to expect in this court, which 32 years you can figure out a few things, you would not be shocked to find out that I never followed a magistrate down the trail, ever. And I don't send things to them. I mean, they're terrific, they're nice people, but they don't do me any good. I'm going to do it myself.

MR. PUZELLA: So how is it that the Court suggests that we

get some clarity on what witnesses are permissible in anticipation of trial?

THE COURT: Either agree on it or bring it to my attention, and you'll get a summary ruling without coming back and doing this again.

MR. PUZELLA: We have some pending motions on those topics, Your Honor.

MR. ADAMS: Let me just very briefly. Recently Wal-Mart submitted what I refer to as a terminal disclosure. They call it an initial disclosure, but six months after discovery ended they tendered a long list of Wal-Mart employees that had not previously been identified to us during discovery indicating they were going to come to trial. And one of the things they are going to testify about was the lack of bad faith and willfulness that they claim they exercised during the selection of the Backyard mark. I'm not joking about this. We had a hearing before Judge Swank who ruled that Wal-Mart had not waived its attorney/client privilege regarding communications between its lawyers and its employees regarding use or non use of the Backyard mark. And part of the reason that she did that was, Wal-Mart made the statement in writing that they did not intend to offer any evidence whatever at trial regarding this issue, testimony or conversations back and forth between the Wal-Mart employees and attorneys. What

happened as soon as the ink was dry on that order, we get this new initial disclosure, and some of the things they specifically say they are going to talk about are the trademark clearances and advice and so forth going back and forth between them. That prompted us to file a motion in limine. Your Honor can rule on that one way or the other very quickly, but in the absence of that is that Wal-Mart is perfectly free to bring any and all of those witnesses they want to to trial and we can object and Your Honor can rule on their admissibility or their right to testify then. Those are two options that we have, which would not at all cause us to miss this date that Your Honor has set. We are fully prepared to meet that date, whether Wal-Mart is or not.

THE COURT: Yeah.

MR. PUZELLA: Your Honor, if that is a genuine offer, we are prepared to bring all the witnesses that we've identified to the Court's hearing, and we can take it on a rolling basis on objections, and we will do our best in anticipation of the Court's time to come to an agreement in advance as to any obvious disputes. But we can avoid a ruling on that motion and have the parties just bring the witnesses they think are appropriate, deal with the objections as they come and then perhaps beforehand we can come to some compromise.

THE COURT: Just my intuition is that this case will not settle because there's too much involved and each side feels that they have leverage. And then, you know, you're going to have a more finalized outcome when you get a final order, a verdict, in the case. And then that creates a -- I mean I don't know how realistic you all are, as lawyers with this, but then you go to the Fourth Circuit, right? And then what happens? Hum, who knows, you know. And if you have a bad result and you go there and you don't get any traction, for lack of a better term. I'm trying to be as circumspect as I can be with my language.

MR. PUZELLA: I hear you loud and clear, Your Honor.

THE COURT: If you don't get any traction, then, whoa, what in the world are we going to do with a -- what is it, **********.

MR. PUZELLA: Well, Wal-Mart clearly thinks it's zero because none of its sales are attributable to the use of the mark.

THE COURT: Yeah, yeah, but if you go that dare and you get a per curiam that says, I don't see anything wrong with this or words to that effect, and it's **********, then, whoa, how did we get into this situation. So it's good to look -- sometimes in law to look backwards from the worst thing that can happen to the present, not forwards, necessarily. And, like I say, I'm willing to be agreeable

on your circumstances. If you can work out a lot of it together, that will be good.

MR. PUZELLA: Just so I understand, because this is going to come quickly. I just don't what there to be any ambiguity after the fact. It's the Court's intention that Wal-Mart and Variety are entitled to bring to trial the witnesses that they have disclosed as to this point, subject to objections at the time of trial, and the parties will endeavor to --

THE COURT: Yeah, I'm going to listen to the witnesses, and if I don't think they're telling me anything I'll say, thank you very much, delighted you're here, next witness.

MR. PUZELLA: Excellent. Just two more questions, Your Honor.

THE COURT: You can have more questions.

MR. PUZELLA: As it relates to supplementation of the parties' expert reports, I understand the Court to say that our request for depositions is not going to be allowed, despite the magistrate and the agreement and so forth?

THE COURT: Well, you can have the depositions if you want to do it, but I'm not going to slow you down right now with six months of depositions or something. I want to try this case before the fall.

MR. PUZELLA: Excellent. That being the case, could we perhaps have a date for the supplementation of the expert

reports, to just facilitate the parties scheduling of those depositions?

THE COURT: Well, I want you to be good neighbors and good friends and I want you to work it out.

MR. PUZELLA: Excellent. Then my last question, Your Honor, my co-counsel I think has a conflict.

MR. HOSP: Yes, Your Honor, David Hosp. I'm just wondering, and if we can't, we can't, if there is anyway we can do the next week in August it would make my family life significantly better. And if we can't I understand that, too. Obviously the Court's time is exceptionally important, and I will work it out one way or another.

THE COURT: Okay. I'll take a look at that and see if that works, but right now it's the 15th. I thought that would be a better time, but it could be the 22nd.

MR. HOSP: Thank you, Your Honor.

THE COURT: The case will try in a couple of days.

MR. PUZELLA: Our view, Your Honor, is it's --

THE COURT: Don't use the word weeks.

MR. PUZELLA: No, no. Four days, at the outside.

THE COURT: Okay.

MR. SHAW: Just for housekeeping matters, Scott Shaw, for the plaintiff, we have looked at some of your prior cases and the local rules and your standing orders. As far as preparation of a pretrial order, are you going to set a

pretrial conference, for example, a week prior to that?

THE COURT: The only thing I look at in the pretrial order is the thing at the last line, the parties estimate number of days for trial. So you can -- you can have a pretrial order. I would be reluctant to send it to a magistrate. Just send it here. Work it out and send it here.

MR. PUZELLA: I will now that I know, Your Honor, that's my preference as well.

MR. SHAW: I just know some of the dates in the local rules track back from the date of the pretrial.

THE COURT: I'm horrible obedient to the rules, so -- I think we're in good shape on this.

MR. PUZELLA: So no pretrial order?

THE COURT: What?

MR. PUZELLA: So no pretrial order?

THE COURT: You can do one and, you know, put a day and a half on the last line above the signatures.

Okay. Well, thank you for coming here today. I don't know if it did any good, but we're at least moving ahead.

MR. ADAMS: Thank you, Your Honor.

MR. PUZELLA: Thank you, Your Honor.

THE COURT: We're in recess.

STATE OF NORTH CAROLINA)
) C-E-R-T-I-F-I-C-A-T-I-O-N
COUNTY OF PERQUIMANS)

I certify that the foregoing is a correct transcript from the record of proceedings in the above-entitled matter.

Sandra A. Graham, CVR-M *6/17/2016*
Sandra A. Graham, CVR-M June 17, 2016
Court Reporter & Notary Public
Notary Public Number: 19940140086